

## **CITY AUDITOR'S OFFICE**

## **Fleet Management Rates**

November 19, 2010

**AUDIT REPORT NO. 1105** 

## **CITY COUNCIL**

Mayor W.J. "Jim" Lane Lisa Borowsky Wayne Ecton Vice Mayor Suzanne Klapp Robert Littlefield Ron McCullagh Marg Nelssen



November 19, 2010

Honorable Mayor and Members of the City Council:

Enclosed is the audit report on *Fleet Management Rates*. The Public Works Division's Fleet Management Department administers the City vehicle fleet, maintaining more than 1,200 city vehicles and related equipment.

This audit concludes that Fleet Management does not use a consistent, cost recovery-based method to develop rates, and the Fleet Fund cash balance is more than necessary to meet forecasted operating and capital needs. In addition, substantial cost savings are possible through reduction of underutilized and loaner vehicles, and additional savings can potentially be achieved by reducing take-home vehicle costs.

We would like to thank Fleet department staff for their cooperation and assistance throughout the audit.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker, CPA, CFE

Sharron Walker

City Auditor

Audit Team:

Joyce Gilbride, Assistant City Auditor Joanna Munar, Senior Auditor Lee Pettit, Senior Auditor

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## **EXECUTIVE SUMMARY**

This audit of *Fleet Management Rates* was included on the Council-approved FY 2010/11 Audit Plan to examine vehicle fleet costs, including maintenance & operation and fleet replacement, and related charges to City departments. The Public Works Division's Fleet Management Department (department) administers the City vehicle fleet and related equipment.

The Fleet Management Fund accounts for the revenues and expenses related to maintenance and replacement of vehicles and related equipment used by City departments. As an internal service fund operation, the fleet management program is expected to be self-supporting with user charges sufficient to recover all related costs. The Fleet Capital Projects Fund accounts for monies transferred from the Fleet Management Fund and used for related capital projects, such as the southern vehicle maintenance shop on McKellips Road.

The department prepares a 10-Year Financial Plan forecasting the program's operating and capital costs, along with the fund balance and cash reserve. However, our analysis noted that:

- Vehicle replacement and maintenance & operation rates were not developed using a consistent, cost-based methodology. In FY 2009/10 and FY 2010/11, rates were discounted inconsistently producing widely varying rates for equivalent vehicles.
- The Fleet Fund cash balance is greater than necessary based on historical and forecasted operating and capital needs. Between FY 2001/02 and 2004/05, about \$7 million transferred out of the Fleet Fund was not clearly designated for Fleetrelated purposes.
- Based on a limited review, substantial cost savings can be realized through reduction
  of underutilized and loaner vehicles and potentially through reevaluation of takehome vehicles. Together these types of fleet vehicles will cost the City more than
  \$1 million in FY 2010/11.

#### **BACKGROUND**

The Public Works Division's Fleet Management Department administers the City vehicle fleet, maintaining more than 1,200 city vehicles and related equipment that together originally cost approximately \$60 million. This varied fleet includes police cars, fire trucks, refuse collection trucks, street sweepers, vans, carts, trailers and other types.

Five programs make up the Fleet Management Department: (1) Fleet Management Administration, (2) Fleet Maintenance & Operations, (3) Fleet Parts Supply, (4) Fuel, and (5) Vehicle Acquisition.

**Fleet Management Administration**—The program's 4 full-time equivalent (FTE) employees, with a \$550,000 budget for FY 2010/11, are responsible for administering all Fleet Management programs and staffing the Fuel and Vehicle Acquisition programs. Specifically, these employees monitor the operating and capital budgets and prepare the 10-Year Plan, including forecasting expenditure needs and developing charge rates to cover operations and vehicle acquisition.

**Fleet Maintenance & Operation**—This program's 36 FTE, with a FY 2010/11 budget of \$6.6 million, are responsible for preventative maintenance on City vehicles and related equipment. All expenditures for purchasing parts are budgeted in this program. Fleet Maintenance & Operation provides shop service and maintenance during established hours on Monday through Friday, as well as emergency response road repairs and towing service for City vehicles. Fleet Management contracts with a vendor for non-emergency towing and emergency tire repair services.

**Fleet Parts Supply**—This program manages the inventory of parts and accessories required to maintain and repair City vehicles. The 7 FTE employees, with a FY 2010/11 budget of approximately \$524,000, manage more than 30 parts-related contracts.

**Fuel**—With a budget of \$4.2 million for FY 2010/11, this program primarily represents City fuel purchases.

**Vehicle Acquisition**—This program has a FY 2010/11 budget of \$3.5 million, but no additional FTEs. The program's primary purpose is to acquire vehicles and related equipment required by City departments. This includes developing bid specifications and researching other government entities' contracts to find the best price for the City. This program is funded by charging departments a monthly rate based on the projected replacement date and cost of their vehicles.

To track the fleet inventory along with original cost, depreciation, usage by vehicle miles or equipment hours, maintenance and repair logs, and life expectancy, Fleet Management uses FASTER, a specialized fleet information management system. FASTER interfaces with SmartStream, the City's financial system, which improves the efficiency of ordering parts, receipting inventory, and paying vendors.

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## **Financial Planning**

The City's Comprehensive Financial Policies provide guidance for the department's fiscal planning and management. In part, these policies require departments to help ensure the City's long-term financial health through techniques such as developing budgets, establishing a rental rate structure to provide a vehicle replacement fund, considering alternative service delivery means, and developing a 5-year financial plan. In addition, Administrative Regulation (AR) 125, Authorization and Operation of City-Owned and Leased Vehicles, more specifically defines policies governing the acquisition, maintenance and operation of all City-owned and leased vehicles.

The Fleet Management Department prepares a 10-Year Financial Plan forecasting the Fleet Fund's operating and capital costs, along with the fund balance and cash reserve. Fleet

Management revenues primarily come from the user fees charged to City departments or programs with City vehicles, as shown in Figure 1. These fees include the following:

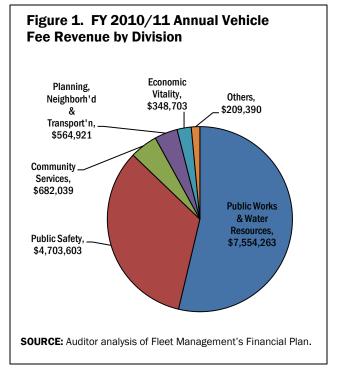
**Maintenance & Operation (M&O)**—This fee is charged to the department or program based on the prior twelve month's actual expenditures for fuel, parts, labor and any contracted repairs for its vehicles. The FY 2010/11 adopted budget for M&O fee revenue is \$11.2 million.

**Vehicle Acquisition**—This fee is charged to fund vehicle purchases, and is based on the estimated replacement cost over the useful life. The FY 2010/11 adopted budget for vehicle acquisition revenue is almost \$2.9 million.

Other Fleet Fund revenues include monies received from the sale of surplus vehicles

and equipment (\$200,000 in FY 2010/11 adopted budget) and interest earned on invested Fleet Fund cash (\$91,000 in FY 2010/11 adopted budget).

Other than capital improvement plan (CIP) interest earnings, Fleet Fund revenues are deposited into the operating fund and are transferred to the capital fund as excess cash is available or as projects are approved. The Fleet operating fund pays for day-to-day operating expenses, including vehicle purchases, while the capital fund is used for capital projects.



As shown in Figure 2, the Fleet fund's June 30, 2010, operating fund cash balance was approximately \$10.8 million and its capital fund cash balance was \$4.9 million. While the operating fund cash balance may fluctuate due to timing of vehicle replacements, the capital fund cash balance fluctuates based on the timing of cash transfers and capital projects.

\$14 \$13 \$12 \$12 \$12 \$11 \$11 \$10 \$8 \$6 \$6 \$5 \$4 \$2 \$2 \$-\$-\$-FY2009/10 FY2008/09 FY2007/08 FY2006/07 FY2005/06 ■ CIP \$4,920,745 \$5,628,994 \$2,063,656 \$-■ Operating \$10,795,379 \$10,959,618 \$12,721,809 \$11,526,914 \$12,042,939

Figure 2. Fleet Fund Cash Balances

**SOURCE:** Auditor analysis of SmartStream trial balances and transactions for Funds 700 (operating) and 701 (capital).

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## **OBJECTIVES, SCOPE, AND METHODOLOGY**

This Fleet Management Rates audit was conducted in accordance with the Council-approved FY 2010/11 audit plan. The audit objective was to examine the costs, including maintenance & operations and fleet replacement, and the related charges to City departments. The audit scope included vehicle replacement and maintenance & operation (M&O) rates for FY 2010/11, with some limited analysis of prior years. In particular, prior years' rate development records were incomplete and some key data in the FASTER system, such as vehicle useful life, was directly edited limiting our ability to fully analyze prior years' cost recovery. Our audit also included a review of transactions recorded in the Fleet Capital Projects fund. We did not audit the recent Public Works analysis of alternate service delivery options for Fleet parts management, nor did we audit fuel usage as this was addressed in the February 2009 report by this office, City Fuel Usage.

To gain an understanding of existing controls over fleet management and best practices, we reviewed the following authoritative polices and reports:

- City Auditor's report Audit No. 0407C, Fleet Asset Management. The audit recommended enhanced controls over vehicle purchases, annual vehicle inventory, and fuel consumption, which have been implemented.
- City of Scottsdale Comprehensive Financial Policies Nos. 11 and 44 addressing capital equipment replacement and Fleet Management reserves.
- City Administrative Regulation (AR) 125, Authorization and Operation of City-owned and Leased Motor Vehicles, and AR 226, Capital Assets: Acquisition, Maintenance and Disposal of Capital Assets.
- U.S. Government Accounting Office's May 2004 report, Federal Acquisition: Increased Attention to Vehicle Fleets Could Result in Savings.
- U.S. General Services Administration's 2005 Guide to Federal Fleet Management.

To gain an understanding of the current rate methodology, we interviewed Fleet Management staff, including the Fleet Management director, Fleet Maintenance superintendent, and Fleet coordinator. As well, we interviewed accounting coordinators in the Finance & Accounting Division and obtained reconciliations for fleet-related capital assets. We also examined elements of Fleet Management's FY 2010/11 10-Year Financial Plan, including scheduled vehicle replacement information by fund and FY 2010/11 M&O rate calculations.

In addition, we reviewed the Fleet Management fund cash balance by:

- Documenting program revenues and expenditures for the period FY 2001/02 through 2009/10, to identify trends and calculate ratios such as fund balance as a percentage of expenditures.
- Reviewed cash transfers-out from the Fleet Management fund to determine what capital projects the monies were spent for and whether they appeared to be fleetrelated purposes. We did not obtain detailed project records for Fleet Fund transfers to the General Fund and General CIP Fund in FY 2001/02 and FY 2006/07.

To analyze vehicle replacement (rental) charges to City divisions, auditors:

- Recalculated Fleet Management's stated funding needs in the 10-year Financial Plan using Fleet-provided vehicle acquisition costs and estimated replacement dates.
- Reviewed rental charge reductions Fleet Management staff made from prorating the Fleet Fund cash balance to other City funds based on their rental charges paid in FY 2007/08 and FY 2008/09. We reviewed the reasonableness of rental rates discounted in this manner, noting examples of similar vehicles used by differently funded departments being charged significantly different rental rates.
- Analyzed the reasonableness of the vehicle replacement charges. This analysis
  included estimating total replacement fees charged for vehicles that are being used
  past their estimated useful lives (the basis for rental charges).

## In reviewing Fleet M&O charges, we:

- Compared recorded M&O costs by department and fund for FY 2008/09 and FY 2009/10 to the related M&O charges. The charges lag the recorded costs by one year, so that FY 2009/10 charges are paying for FY 2008/09 costs.
- Compared total M&O charges to departments to recorded Fleet M&O revenue and analyzed the revenue trends for FY 2001/02 through FY 2009/10.
- Reviewed Fleet Management's stated methodology for developing M&O charges and reviewed for any variances in M&O charges for similar vehicles of differently funded departments.
- Reviewed Fleet Management's determination of underutilized vehicles and researched commonly used vehicle utilization benchmarks. Calculated potential savings from removing vehicles from service based on Fleet Management's underutilized list and auditors' utilization analysis. We also estimated the alternative cost of paying mileage reimbursement for use of personal vehicles.

Based on these audit procedures, Fleet Management does not use a consistent, cost recovery-based method to develop rates, and the Fleet Fund cash balance is more than necessary to meet forecasted operating and capital needs. In addition, substantial cost savings are possible through reduction of underutilized and loaner vehicles, and additional savings can potentially be achieved by reducing take-home vehicle costs.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place in September and October 2010; Joyce Gilbride, Joanna Munar and Lee Pettit conducted the audit.

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## **FINDINGS AND ANALYSIS**

# 1. Vehicle Replacement and Maintenance & Operation rates are not developed using a consistent, cost recovery-based method.

Fleet Management has not developed a consistent, sound methodology to develop vehicle replacement and maintenance & operation rates. Further, the Fleet department's software is not fully utilized to manage vehicle and rate information, and inconsistent manual overrides cause the data to be less useful.

#### A. Vehicle Replacement Rates

Various methods appear to have been used for vehicle replacement rates, which the department refers to as rental rates, over the past few years. Fleet Management stated that "full recovery" rental rates were charged in FY 2008/09. These rates were determined by amortizing each vehicle's estimated replacement cost over its estimated useful life. The replacement cost was estimated by inflating the vehicle's original acquisition cost by 3% for each year in its estimated useful life. The department stated that full recovery rental rates were also developed for FY 2009/10, but these amounts were reduced at the direction of former Financial Services management. The reduction was done to lower department budgets, particularly those supported by the City's General Fund. Rental rates were similarly reduced for FY 2010/11, but by different amounts.

- Documentation is not available to support the adjustments to rental rates. The
  department indicated that earlier years' rate calculation files were corrupted
  during the FY2009/10 budget process.
- Based on the Fleet Fund's available cash balance and forecasted funding needs for the next five years, the total revenue that would have resulted from the FY 2010/11 vehicle replacement rates (\$6.4 million) was reduced by \$3.5 million, or approximately 55%.

Rather than apply that discount to all vehicle rates, the department tried to prorate the available cash balance by fund based on each fund's payments during FY 2007/08 and FY 2008/09. However, the budgeted cash balance was used in the calculation rather than the actual balance, and the proration did not take into account any vehicle purchases that may have reduced a fund's share of the available Fleet cash balance. As a result, the calculation produced widely varying discount rates. For example, as the largest contributor, the General Fund received a 65% discount on annual rental rates, while a small Water Fund was charged an additional 127% of the annual rental rate. So Fleet Management charged different departments widely varying rental rates for equivalent vehicles, as shown in Table 1 on page 8.

**Table 1. Vehicle Rate Comparisons\*** 

	FY 20	10/11	FY 200	9/10	FY 200	08/09	FY 200	7/08
Vehicle Type (Fund)	Rental	M&0	Rental	M&0	Rental	M&0	Rental	M&0
2002 Ford F350 (100)	782	3,033	437	3,452	3,931	5,398	3,804	6,000
2002 Ford F350 (607)	5,000	3,443	1,001	3,406	3,931	5,398	3,804	6,000
2004 Ford F150 (100)	776	5,233	461	3,445	2,916	3,990	2,822	4,600
2004 Ford F150 (200)	636	7,494	530	2,716	2,916	3,990	2,581	4,600
2004 Ford F150 (600)	1,040	10,685	811	7,733	2,916	3,990	2,581	4,600
2005 Ford F150 (100)	795	4,008	472	4,360	2,916	3,990	2,822	4,600
2005 Ford F150 (650)	1,484	4,222	701	3,827	2,916	3,990	2,581	4,600

<sup>\*</sup> Rental rates represent vehicle replacement charges; M&O represents maintenance and operation costs, such as fuel and repairs. The comparison vehicles in each group were chosen based on having similar mileage but different funding sources.

**SOURCE:** Auditor analysis of Fleet's equipment list, annual vehicle mileage, and fiscal year replacement and maintenance and operations rate schedules.

 Fleet Management extended the estimated useful lives of vehicles to reduce vehicle purchases in FY 2009/10 and FY 2010/11. However, the rental rates that resulted from using the extended lives were not adjusted for amounts already paid for a particular vehicle or piece of equipment. Therefore, in the 2 fiscal years City departments will have paid approximately \$420,000 beyond the expected replacement cost of such vehicles.<sup>1</sup> Tracking vehicle rental charges by vehicle would help ensure that departments are not overcharged.

#### **B.** Maintenance & Operation Rates

Similar to vehicle replacement rates, the vehicle maintenance & operation (M&O) rates have not been based on a specific, documented cost analysis. Fleet Management charges departments for their vehicles' fuel, parts, and labor using cost plus a percentage markup. However, the labor and markup rates have not been developed based on an analysis of the actual direct, indirect and overhead costs associated with managing the City's vehicle fleet. For example, fuel has been marked up by 10% and parts by 20% while the labor rate is set at a specific amount, such as \$89 per hour. Any contracted maintenance or repair services are marked up 15%.

For budgeting purposes, the current year's M&O charges for a vehicle are based on the prior twelve month's maintenance and operation activity using these cost-plus rates. As also shown in Table 1, charges for maintenance and operating costs for the selected example vehicles ranged from \$2,700 to almost \$11,000 per year.

For vehicle replacement charges, the department should determine the charges to date for existing inventory, compare those amounts to the original acquisition cost or estimated

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<sup>&</sup>lt;sup>1</sup> Fleet Management extended the useful life of every class of equipment in inventory during the FY 2009/10 budget process.

replacement cost, determine the remaining amount to be collected and the remaining useful life of the vehicle and use that information to determine rental rates. For M&O rates, the department should determine the direct, indirect, and overhead costs that need to be recovered. Then, for each type of service provided, such as vehicle acquisition, fuel, oil changes or periodic maintenance, the department could determine the direct cost involved and apply a consistent overhead rate.

#### C. Data Issues

Invalid or missing data and unsupported edits to original data in the FASTER system have made it difficult for Fleet staff to perform reliable financial planning. During the rate development process, Fleet Management does not reconcile vehicle charges to the fleet inventory. As a result of data entry errors, 9 vehicles were not included in the FY 2010/11 rate development process, and their departments were not charged vehicle replacement/rental fees. Also, an accurate history of actual rental amounts charged each year was not readily available from the system.

Overall, Fleet Management has not yet established formal guidelines for developing and maintaining the Fleet Fund financial plan and rates. For example, it is not clear whether vehicle rental rates or M&O rates are intended to pay for Fleet capital projects, such as the McKellips maintenance facility, and which rates should recover indirect and administrative costs. Also, because certain funds such as the City's enterprise and grant funds are restricted to being used for their intended purposes, complete accurate records are needed to support the vehicle fleet charges.

#### **Recommendation:**

Fleet Management should ensure that vehicle replacement and maintenance & operation rates are based upon a documented, cost-based methodology that is consistently applied. In addition, Fleet Management should track the vehicle replacement charges for individual vehicles and equipment to ensure departments are not over or undercharged.

## 2. The Fleet Fund cash balance is not based on properly forecasted needs.

The Fleet Fund cash balance exceeds actual operating and capital needs. Further, at least \$250,000 of the Fleet Fund was transferred to the General CIP Fund for non-Fleet purposes, and additional cash transfers totaling \$7 million were not clearly designated for Fleet purposes.

#### A. Available Cash Balance

The June 30, 2010, Fleet operating fund cash balance was \$10.8 million, and the Fleet capital fund had another \$4.9 million. The department's 10-year financial plan indicates vehicle replacements over the next 5 years are expected to total \$17 to \$18 million. In addition, the department has approved capital projects with remaining estimated expenditures totaling \$728,000.<sup>2</sup>

As shown in Table 2, the available cash balance has been adequate to cover 67% to 91% of the year's actual expenditures, exclusive of annual revenues. Further, the cash balance is currently projected to remain at 40% to 57% of planned annual expenditures for the next 3 years.

**Table 2. Analysis of Fleet Management Fund Operating Cash Balance** (dollar amounts in thousands)

Operating	2012/13 (projected)	2011/12 (projected)	2010/11 (projected)	2009/10 (actual)	2008/09 (actual)	2007/08 (actual)	2006/07 (actual)	2005/06 (actual)
Ending Cash Balance	\$ 6,806	6,716	8,443	10,795	10,960	12,722	11,527	12,043
Revenues*	15,457	14,906	14,359	13,858	18,827	16,660	16,406	14,602
Expenses*	15,346	16,604	15,201	13,527	13,235	14,007	17,212	14,165
Cash Balance as a % of Expenses	44%	40%	57%	80%	83%	91%	67%	85%

<sup>\*</sup>These amounts exclude certain non-cash adjustments or transactions.

SOURCE: Auditor analysis of SmartStream reports and Fleet's Financial Plan.

The City's financial policies do not currently provide clear guidance regarding the level of cash reserves that should be maintained in the Fleet Fund. Additionally, Fleet management has not identified a goal or objective for operating and capital reserves needed for efficient operation of the City's vehicle fleet. Existing City guidance for enterprise fund operations provides that cash reserves should be available to fund 90 days of operations.<sup>3</sup> This type of guidance could easily be applied to the M&O portion of the Fleet Fund. More specific policy guidance, however, is needed for appropriate levels of vehicle acquisition reserves.

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<sup>&</sup>lt;sup>2</sup> This amount excludes \$1.2 million that was approved for the Thunderbird Maintenance Facility. The Public Works Executive Director indicated this project changed in scope to a potential Park and Ride facility and is no longer a Fleet project.

<sup>3</sup> A recently proposed revision may change this guidance to provide 60 to 90 days of operating reserves.

## **B.** Using Fleet Revenues for Other Purposes

Most of the recent Fleet CIP transfers appear to be used for Fleet-related projects, however, for FY 2001/02 through FY 2005/06, \$7.1 million of Fleet Fund transfers were not clearly designated as being used for fleet purposes.

Before FY 2007/08, Fleet Fund cash was transferred to the City's CIP General Fund for capital projects. Establishing a separate Fleet Capital Projects fund in FY 2007/08 allowed Fleet to receive the interest earned on its significant cash balance and also made it easier to track the uses of Fleet monies.

Approximately \$10.2 million was transferred from FY 2001/02 through FY 2006/07, of which \$7.1 million was not clearly designated for fleet purposes.

- In FY 2001/02 and FY 2002/03, about \$5.7 million was transferred to the CIP General Fund and another \$591,000 to the General Fund.
- Additionally, in FY 2004/05, another \$747,000 was transferred to a Radio Replacement CIP project.

As shown in Table 3, from the time the separate Fleet Capital Projects Fund was established through FY 2009/10, approximately \$11.1 million has been transferred into the Fleet Capital Projects Fund.

Table 3. Fleet Capital Projects Fund Activity (in thousands)

(III tilousalius)				
	2010/11 (projected)	2009/10	2008/09	2007/08
Beginning Cash Balance	\$4,921	5,629	\$2,064	\$-
Transfers In & Interest Revenue	31	2,093	7,031	2,125
Expenditures	73	2,801	3,466	61
Ending Cash Balance	\$4,879	\$4,921	\$5,629	\$2,064

**SOURCE:** Auditor analysis of SmartStream reports and Fleet's Financial Plan.

A planned project, construction of another north maintenance facility, was funded in FY 2008/09 with \$1.2 million of Fleet monies. As this project is being closed, any monies not specifically designated for Fleet-related CIP should be returned to the Fleet Management operating fund to allow vehicle rates to be reduced.

#### **Recommendation:**

The Public Works Division Executive Director should ensure:

A. Fleet Management works with Finance & Accounting Division to develop and recommend more specific Financial Policies applicable to the Fleet Management Fund. In the meantime, department management should consider applying guidance for enterprise fund operating reserves to the M&O portion of the fund balance. In

- addition, the department should establish written guidelines and procedures for the development and maintenance of the 10-Year Financial Plan.
- B. Fleet capital funds are only applied to fleet-related capital projects. In addition, division management should review whether any monies transferred from the Fleet Fund have been used for non-Fleet purposes and should be returned to fund future vehicle purchases.

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## 3. Costs for underutilized, loaner and take-home vehicles totaled more than \$1 million in FY 2010/11.

In FY 2009/10, Fleet Management spent \$13.5 million to maintain and acquire vehicles in the City's fleet. In the current year, departments are being charged \$700,000 for vehicles that are driven fewer than 5,000 miles per year. Departments are charged another \$814,000 for take-home vehicles; Fleet Management estimates the commuting portion of this cost to be \$300,000 to \$375,000. In addition, loaners and vehicles that were planned to be removed from the City's fleet but were not, cost another \$93,000.

A. The City's fleet of 1,200 vehicles includes approximately 160 to 380 vehicles that do not appear necessary based on annual miles driven. Fleet Management uses less than 5,000 miles or 200 hours of use annually to identify underutilized vehicles or equipment for further review. This vehicle usage benchmark is low in comparison to a more commonly referenced average, 12,000 miles per year.<sup>4</sup>

Based on Fleet Management's conservative 5,000 mile benchmark, the City's fleet includes 166 underutilized vehicles with M&O and rental fees totaling close to \$700,000 in FY 2010/11. However, using the 12,000 miles-driven benchmark, the City's fleet includes 383 underutilized vehicles with associated costs totaling \$1.9 million, as summarized in Table 4.

Table 4. Underutilized Vehicles by Division

		icles Driven 2,000 Miles	Vehicles Driven < 5,000 Miles		
Division/Office	Count	FY 2010/11 Charges	Count	FY 2010/11 Charges	
Administrative Services	2	\$12,118	2	\$12,118	
City Clerk	1	2,490	1	2,490	
Community Services	45	226,044	31	133,761	
Economic Vitality	4	11,481	3	10,465	
Finance & Accounting	11	62,487	4	23,056	
Information Technology	8	18,911	6	13,581	
Planning, Neighborhood &Transp.	44	198,473	15	56,970	
Public Safety - Fire	22	95,283	6	25,721	
Public Safety - Police					
Marked Cars	64	441,905	29	161,975	
Unmarked Cars	99	459,206	33	134,106	
Public Works & Water Resources	82	367,533	35	113,377	
Section 8 Housing	1	4,777	1	4,777	
Totals	383	\$1,900,708	166	\$692,399	

Analysis included general purpose vehicles such as trucks and sedans; excluded special purpose vehicles such as fire trucks and street sweepers.

SOURCE: Auditor analysis of vehicle listing provided by Fleet department.

Fleet Management Rates

<sup>&</sup>lt;sup>4</sup> For example, the U.S. General Services Administration's Fleet Management Guide, §4.3.4, states that utilization of less than 3,000 miles per quarter or 12,000 miles per year must be justified.

Even though Fleet Management may identify a vehicle as underutilized, it may remain in the City's fleet if a division's executive management decides its department has justified keeping the vehicle. But underutilized vehicles result in higher than necessary City costs for maintenance & operation charges and vehicle replacement fees.

Other alternatives to permanently assigned vehicles could provide significant savings. One alternative would be to pay mileage for necessary use of a personal vehicle. By paying personal vehicle mileage rather than retaining vehicles driven less than 5,000 miles, the City could save about \$120,000. Another alternative would be to make available a small number of fleet vehicles through a reservation system rather than permanently assigning them to specific departments. In this manner, the costs of fewer fleet vehicles could be more efficiently spread across several departments that do not need vehicles every day.

B. During FY 2009/10 fleet reduction efforts, Fleet Management requested the return of 95 vehicles from various departments, as shown in Table 5. City departments returned 60 vehicles including most of the requested vehicles and some voluntary returns. Together these represented potential savings of about \$275,000 in annual operating and rental fees.

Table 5. FY 2009/10 Vehicle Fleet Reduction by Division

	Req	uested	Returned	
	Count	Potential Savings	Count	Potential Savings
City Clerk	1	\$ 1,837	0	\$ -
Community Services	5	\$ 28,413	12	\$67,095
Economic Vitality	1	\$ 3,906	2	\$8,140
Finance & Accounting	1	\$ 1,033	3	\$ 25,376
Human Resources	1	\$ 2,194	1	\$ 2,194
Information Technology	3	\$5,205	2	\$ 4,470
Planning, Neighborhood &Transportation	11	\$ 38,999	15	\$ 48,196
Public Safety	49	\$ 270,446	3	\$ 9,150
Public Works & Water Resources	23	\$ 91,845	22	\$110,715
	95	\$443,877	60	\$275,336

Analysis included general purpose vehicles such as trucks and sedans; excluded special purpose vehicles such as fire trucks and street sweepers.

**SOURCE**: Auditor analysis of Fleet's FASTER reports and Financial Plan.

Vehicles were intended to be removed from the City's fleet to meet targeted budget savings. Fleet Management redeployed 3 of these 60 vehicles to other departments for continued use. The redeployed vehicles represent \$17,827 of continued costs in FY 2010/11.<sup>5</sup> Further, based on the vehicles auctioned last year, about \$5,200

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<sup>&</sup>lt;sup>5</sup> Two of these vehicles with annual costs totaling \$7,000 are also included in the underutilized vehicle costs in part A.

might be realized from their sale. Thus, potential sale revenues plus the avoided operating costs could total \$23,000.

Generally when vehicles are returned, Fleet Management uses its discretion in determining whether to auction the vehicle or keep it in the City's fleet. Auction proceeds averaged about 9% of the original vehicle cost; therefore, redeploying surplus vehicles can be a cost effective way to meet the City's vehicle needs. The departments are charged operating costs through M&O fees, but do not pay vehicle rental fees as the vehicles are not intended to be replaced. For FY 2010/11, the 21 loaner vehicles represent about \$76,000 in M&O charges.<sup>6</sup> Further, based on the vehicles auctioned last year, about \$45,000 might be realized from their sale. Thus, potential sale revenues plus the avoided operating costs could total \$121,000.

C. Based on a very limited review of the 112 vehicles identified as authorized takehome vehicles, the associated City costs totaled \$814,000 in FY 2010/11. Fleet Management estimates the commuting portion of these costs to be \$300,000 to \$375,000. For individual vehicles, the costs ranged from \$2,100 to \$12,000 per year for maintenance & operation and vehicle replacement charges.

Given the current challenging economic times, a review of the number and use of assigned take-home vehicles and their associated operating costs may identify possible savings. In some cases, taking into consideration the specific purpose and miles driven, paying mileage for use of personal vehicles may be a less expensive alternative.

The Public Works Executive Director recently recommended to the Executive Committee that take-home vehicles be reviewed for possible reductions and cost savings.<sup>7</sup>

#### **Recommendations:**

- A. The Public Works Executive Director should direct Fleet Management to draft a policy and procedures for identifying and removing underutilized vehicles from the City's fleet. Related guidance should be incorporated into Administrative Regulation 125. Given the City's budgetary constraints, further fleet reduction efforts should be implemented as quickly as possible. Alternatives may include establishing a vehicle reservation system for infrequent vehicle needs.
- B. Fleet Management should document policies and procedures for the Fleet Vehicle Loaner Program. In addition, all outstanding loaner vehicles should be reviewed for further fleet reductions.
- C. The Public Works Executive Director should continue to request an executive review of the take-home vehicle policy and assigned vehicles for possible budget savings. If the number of vehicles is not reduced, a detailed review should be performed of their use and maintenance & operation costs to identify cost savings.

<sup>&</sup>lt;sup>6</sup> Fourteen of these vehicles with annual costs totaling \$40,132 are also in the underutilized vehicle costs in part A.

<sup>&</sup>lt;sup>7</sup> The Executive Committee consists of the City Manager, Assistant City Manager, Charter Officers, Executive Directors and the City Manager's senior staff.

## **MANAGEMENT RESPONSE / ACTION PLAN**

1. Vehicle Replacement and Maintenance & Operation rates are not developed using a consistent, cost recovery-based method.

#### **Recommendation:**

Fleet Management should ensure that vehicle replacement and maintenance & operation rates are based upon a documented, cost-based methodology that is consistently applied. In addition, Fleet Management should track the vehicle replacement charges for individual vehicles and equipment to ensure departments are not over or undercharged.

MANAGEMENT RESPONSE: Management concurs with this finding.

PROPOSED RESOLUTION: While the Fleet Management Department does have a documented, cost based methodology for developing vehicle replacement and maintenance and operating rates, the City has not applied it consistently. The decision to modify cost-based rates for the past two years was a senior management decision in order to mitigate impacts on the general fund operating budget. Fleet Management will develop proposed cost-based rates, including a true replacement rate by individual vehicle, as it prepares its rate proposal for the 2011/12 budget. Fleet Management and Public Works Division will coordinate with the City Treasurer and Financial Management Division to implement the full cost-based rates.

RESPONSIBLE PARTY: Fleet Management in partnership with the Financial Management Division

COMPLETED BY: June 30, 2011

2. The Fleet Fund cash balance is not based on properly forecasted needs.

#### **Recommendation:**

The Public Works Division Executive Director should ensure:

- A. Fleet Management works with Finance & Accounting Division to develop and recommend more specific Financial Policies applicable to the Fleet Management Fund. In the meantime, department management should consider applying guidance for enterprise fund operating reserves to the M&O portion of the fund balance. In addition, the department should establish written guidelines and procedures for the development and maintenance of the 10-Year Financial Plan.
- B. Fleet capital funds are only applied to fleet-related capital projects. In addition, division management should review whether any monies transferred from the Fleet Fund have been used for non-Fleet purposes and should be returned to fund future vehicle purchases.

MANAGEMENT RESPONSE: Management concurs with this finding.

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PROPOSED RESOLUTION: Fleet Management Department and the Financial Management Division need to jointly determine the appropriate minimum balance for both the maintenance and operations and vehicle acquisition fund balances in order to meet the City's continuity of operations and vehicle replacement objectives over the 5 year planning period for the Fleet Fund. Fleet Management will then develop their multi-year vehicle replacement plan and propose rates to insure the minimum fund balances are maintained

RESPONSIBLE PARTY: Fleet Management in partnership with the Financial Management Division

COMPLETED BY: June 30, 2011

## 3. Costs for underutilized, loaner and take-home vehicles totaled more than \$1 million in FY 2010/11.

#### **Recommendations:**

- A. The Public Works Executive Director should direct Fleet Management to draft a policy and procedures for identifying and removing underutilized vehicles from the City's fleet. Related guidance should be incorporated into Administrative Regulation 125. Given the City's budgetary constraints, further fleet reduction efforts should be implemented as quickly as possible. Alternatives may include establishing a vehicle reservation system for infrequent vehicle needs.
- B. Fleet Management should document policies and procedures for the Fleet Vehicle Loaner Program. In addition, all outstanding loaner vehicles should be reviewed for further fleet reductions.
- C. The Public Works Executive Director should continue to request an executive review of the take-home vehicle policy and assigned vehicles for possible budget savings. If the number of vehicles is not reduced, a detailed review should be performed of their use and maintenance & operation costs to identify cost savings.

MANAGEMENT RESPONSE: Management concurs with this finding.

PROPOSED RESOLUTION: Fleet Management will coordinate with operating divisions to develop a proposed vehicle reduction list. A current listing of underutilized vehicles will be a starting point, but the operational needs of divisions and age and condition of vehicles will also be taken into consideration. Fleet and Financial Management will also review the current take-home vehicle authorizations for operational need and compliance with the program rules in AR 125, Authorization and Operation of City-owned and Leased Motor Vehicles. This review will generate possible recommendations to the City Manager for reduction in the take-home program.

RESPONSIBLE PARTY: Fleet Management in partnership with Finance Division and City Management.

COMPLETED BY: June 30, 2011

#### **City Auditor's Office**

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